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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - FEBRUARY 2010

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Domestic Economy  
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12. (SBU) Grain Output Declines in 2009: According to the Korea Rural Development Administration (RDA), the DPRK's 2009 grain and staple food production was an estimated 4.11 million metric tons, down five percent (or a drop of 200,000 metric tons of grain) from 12008. Rice production was estimated to be 1.91 million metric tons, three percent higher than in 2008, while corn output fell 16 percent to 1.3 million metric tons due to unfavorable weather conditions last summer. The total amount falls 1.3 million metric tons short of what the DPRK needs in 2010 to feed its population. The estimate is based on a RDA simulation which analyzed the DPRK's initial production figures on climate and soil conditions last year. (Yonhap News, February 10, 2010)

13. (SBU) Market Restrictions Eased: The DPRK authorities have reportedly started lifting market regulations across the nation. Since February 1, market restrictions in Yanggang Hamkyung Provinces have been completely lifted. Rice prices, previously more than 400 DPRK won, are now reported to have stabilized between 250 - 300 DPRK won. However, it is not clear whether authorities have completely opened the market or they are temporarily opening the market to

avert a possible food crisis. At a February 2 symposium, Seoul National University's Dr. Kim Byung-yeon, stated that a complete abolishment of markets in the DPRK would be difficult because the DPRK relies heavily on such unofficial economies, such as illegal market activities, despite strict control of those activities. (Daily NK, February 3, 2010, Yonhap News , February 2, 2010)

¶4. (SBU) Finance Chief Sacked Over Currency Debacle: The DPRK government dismissed Workers' Party's Finance Director Pak Nam-gi, reportedly because of the failed currency reform late last year. Pak was appointed as Finance Director in July 2007 overseeing the DPRK's economic policies and has spent the past few years attempting to create a market economy. Meanwhile, DPRK Premier Kim Yong-il has apologized for inflation and confusion in the aftermath of the currency reform, according to Good Friends, a ROK-based NGO. (Chosun Ilbo, February 3, 2010)

¶5. (SBU) Scholar: DPRK Currency Reform Goal Was to Expand Public Finance In an interview with the Chosun Sinbo on January 29, Kim Cheol-jun, Director of the (North) Korea Institute of Social Sciences speculated that the DPRK currency reform implemented last November was aimed at filling the DPRK's public finance coffers. He pointed out that following the currency reform, the North Korean government failed to introduce any policies to address concerns to stabilize the lives of ordinary citizens. Instead the government banned foreign currency use, closed the markets and took other measures which added to inflation and instability. (Chosun Sinbo, January 29, 2010)

¶6. (SBU) National Development Bank Established to Attract FDI: The  
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DPRK National Defense Commission recently ordered the establishment of a "National Development Bank" to carry out investments with international financial institutions on projects relating to national. This could be an indication that the DPRK leadership is more aggressively striving to entice foreign capital, but it is not yet clear if the move will have any significant impact. Economic sanctions by the international community have made it difficult for the DPRK to attract direct foreign investment. (Korea Central News Agency, January 20, 2010)

#### Foreign Trade and Investment

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¶7. (SBU) DPRK-China Trade Declines in 2009: In 2009, two-way trade between the DPRK and China fell four percent to USD 2.69 billion. The decline was mainly due to worsened relations between the two countries following the North's second nuclear test conducted in May 2009 and unstable economic conditions created by its currency reform. Trade in December 2009 dropped 21 percent from the same period of the previous year. Chinese exports to the DPRK in 2009 fell 7.1 percent to USD 1.89 billion, while Chinese imports from the DPRK in 2009 also dropped 4.3 percent to USD 0.80 billion. (Japanese Nihon Keizai Shimbun and ROK Yonhap News, February 2, 2010)

¶8. (SBU) Reports of USD 10 Billion of Chinese Investment: Quoting an unidentified source, on February 15 the media reported that China will soon invest USD 10 billion in North Korea. According to these reports, several Chinese banks and multinational companies will soon complete negotiations with North Korea's Daepung International Investment Group, a newly established international cooperation agency to move forward with investments in railroads, harbors and houses. A signing ceremony will be held in mid-March. (Yonhap News, February 15, 2010)

¶9. (SBU) DPRK Patent Applications: According to the figures recently released by the World Intellectual Property Organization (WIPO), North Korea has registered a total of 14 patent cases in the last five years. The DPRK patents registered with the WIPO include basic materials, machinery, food, and culture sector. The DPRK joined the WIPO in 1974 and signed a Patent Cooperation Treaty in 1980. In 2006 an international seminar on IPR was held in Pyongyang. The DPRK trails other Asian nations in patent filings, but is reportedly enthusiastic about participating IPR-related

international seminars and training programs organized by the WIPO.  
(Radio Free Asia, February 17, 2010)

¶10. (SBU) Mobile Phone Users Reach 100,000 Subscribers: Orascom Telecom, the Egyptian-based mobile network operator, said its subsidiary in the DPRK, Koryolink, acquired 100,000 subscribers in December 2008 and expects to add millions more in the next five years. Khaled Bichara, chief executive of Orascom stated that, "We see that there is a very big plan for an economic boom in the DPRK and we predict a much stronger economy by 2012. We believe that mobiles are the future of communication and we will definitely be part of this." Bichara also noted that mobile phone subscribers were not limited to elite members of the military and communist party, as many observers had speculated. Koryolink offers only basic voice and text message service. International and roaming services are not provided but Bichara said that starting those services would be fairly easy given the sophistication of the network being installed. (Financial Times, February 2, 2010)

¶11. (SBU) Air Koryo Suspends Pyongyang - Shenyang Flights: Due to falling demand, Air Koryo has suspended flights between Pyongyang and Shenyang, China. Air Koryo has been operating twice weekly direct flights between the two cities. An Air Koryo official said operations would resume soon. (Yonhap News, January 28, 2010)

¶12. (SBU) DPRK Lifts Travel Ban on Americans: The DPRK has recently lifted a travel ban imposed on Americans. Walter Keats, owner of U.S.-based Asia Pacific Travel Agency which specializes in North Korean tours, claimed that Americans can now visit the DPRK. Until now, Americans were only granted visas to the DPRK between August and October, 2009. Restrictions on the duration and travel routes of DPRK tours remain the same. Thus, U.S. citizens are not allowed to stay longer than four nights in the DPRK, nor to travel via train through China. Many experts view the North's recent move as the DPRK's attempt to bring in more foreign currency. (Radio Free Asia, January 28, 2010)

#### Inter-Korean Economic Cooperation

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¶13. (SBU) Additional Labor for the KIC: The DPRK authorities are considering supplying 700 additional North Korean workers for ROK firms operating in the Kaesong Industrial Complex (KIC). The additional workers would be high school graduates from around the Kaesong city. After three months of on-the-job training, the newly recruited North Korean workers would be supplied to KIC firms in June this year. (Radio Free Asia, February 9, 2010)

¶14. (SBU) Inter-Korean Trade in 2009 Fell 8 Percent: According to figures released by the Ministry of Unification (MOU), inter-Korean trade in 2009 fell eight percent to USD 1.68 million. South Korea's exports to the DPRK in 2009 fell by 16 percent to USD 745 million, while imports remained the same as the previous year totaling USD 934 million. The MOU attributes the decline in inter-Korean trade to stalled inter-Korean relations. Overall inter-Korean trade accounted for 98 percent of inter-Korean commercial transactions that include general trading, processing based on commission and revenue generated from Kaesong Industrial Complex (KIC). However, non-commercial transactions such as humanitarian aid shipments from ROK civic groups and the ROKG, totaled USD 37 million, accounting for only two percent of total inter-Korean trade. Trade involving KIC rose 16 percent to USD 941 million. The South's shipment of raw materials to the KIC increased by a small margin of one percent to USD 523 million while outbound shipments of finished KIC products to the South rose 44 percent to USD 418 million. Trade involving Mount Geumgang tourism remained stagnant due to the continued suspension of tours. (MOU Website)

#### Foreign Aid

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¶15. (SBU) WFP Winds Down Food Aid Program: Lena Savelli, spokesperson from the World Food Program (WFP), announced that it would end its emergency food aid operation project in the DPRK. The

WFP had planned to operate the Emergency Operation for the DPRK from September 2008 through November 2009, spending USD 540 million to feed 6.2 million North Koreans, but due to significantly reduced donations by international communities such as the United States and South Korea, the WFP had to scale down the program. The WFP secured only 18 percent of the targeted donation amount by the end of 2009. (Radio Free Asia, February 4, 2010)

¶16. (SBU) U.S. NGO Sends Medical Supplies to the DPRK: The Institute for Strategy and Reconciliation (ISR), a U.S.-based NGO, will send medical supplies worth USD 4.8 million of to help more than 20,000 North Korean children and persons with disabilities. Medical supplies include antibiotics, wheelchairs, crutches, stethoscopes and various surgical and medical equipment. The ISR has been sending medical supplies to the DPRK since 1998. It soon plans to recruit volunteers to assist with post-surgery rehabilitation programs in the DPRK. (Yonhap News, February 9, 2010)

¶17. (SBU) German NGO Builds Solar Energy Green House in DPRK: German Agro Action (GAA), a Germany-based NGO, has been helping the DPRK to build 15 solar energy green houses in Pyongyang and Sooncheon City in Pyongan Province in North Korea. GAA has allocated a total of USD 2 million for the project. The solar energy green houses are designed for a large-scale vegetable cultivation and fish farming. Construction has not been completed. It also plans to offer a training program on farming, in Pyongyang and Sooncheon City by end of this year. Finally, GAA plans to send 625 metric tons of food including rice, soy beans, sugar, salt and vegetable oil to the DPRK. (Radio Free Asia, 02/16/2010, Voice of America, February 19, 2010)

¶18. (SBU) New Zealand NGO Sends English Teachers to the DPRK: NZ-DPRK Society, a New Zealand-based NGO helping North Korea in the agricultural and educational sectors, said January 20 that it plans to dispatch English teachers to teach English to North Korean middle and high school students for two months. In addition, it plans to invite North Korean students as part of student scholarship program to New Zealand to learn English, IT, hygiene and business management. The NGO had sent English teachers to the DPRK in 2006 and 2008. (Radio Free Asia, January 20, 2010)

¶19. (SBU) Australia Cuts DPRK Aid in 2010: The Australian Government Overseas Aid Program (AusAID) plans to cut humanitarian aid to the DPRK to USD 4.65 million this year, down from USD 6.75 million. Officials said the reduction was mainly due to the North's nuclear test in May last year. AusAID has been helping the DPRK via the WFP, UNICEF and the IFRC. (Radio Free Asia, January 15, 2010)

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¶20. (SBU) Training for DPRK Officials: The Swiss Government has allocated 4.5 million Swiss francs (USD 4.2 million) to offer training programs for executive members of the DPRK state-run companies and high-ranking government officials on international trade and business management. The Swiss Agency for Development and Cooperation (SDC) has been providing such training programs for DPRK officials at Pyongyang International Business School since 2004 and all classes have been conducted in English with Korean materials. The Pyongyang International Business School was jointly established by the DPRK Government, SDC and the European Business Association in 2004. It is the first Western-style business school in the DPRK. The SDC, however, suspended all DPRK assistance programs beginning from 2011 due to strong opposition from the Swiss Parliament. (Radio Free Asia, January 22, 2010)

¶21. (SBU) ROKG May Resume Fertilizer Aid: An ROKG official was quoted as saying that the ROKG is ready to provide the DPRK with fertilizer even before an inter-Korean summit is held. He said, "Food aid is difficult because there is a high chance it will be delivered to the DPRK military, but fertilizer isn't much of a problem." The ROKG offered 10,000 tons of corn to the DPRK last October, because corn is less likely to be diverted to the DPRK military than rice. The DPRK accepted the South's offer only recently because the ROKG notified it that other aid including fertilizer would not be given unless it accepted the corn." (Chosun

Ilbo, February 2, 2010)

¶22. (SBU) ROKG Delivers USD 87,450 Worth of Hand Sanitizer: The MOU sent 1 billion KRW (USD 87,450) worth of hand sanitizers to help North Koreans fight the H1N1 flu virus on February 22. This follows 500,000 doses of the anti-flu vaccines to the DPRK last December. Meanwhile, the World Health Organization (WHO) said although 24 North Koreans have been infected with the H1N1 virus, there have been no deaths. (Korea Times, February 17, 2010)

TOKOLA